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UNCLAS SAO PAULO 000120

SENSITIVE
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E.O. 12958: N/A

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SUBJECT: BRAZIL: COTTON -PRIVATE SECTOR OFFERS IDEAS AND CONCERNS

REF: BRASILIA 172; POPP-CRAFT/KKALUTKIEWICZ EMAILS 02-19-2010

¶1. (SBU) Summary: Brazilian private sector representatives have expressed their increasing concern about perceived potential negative impact on bilateral trade if GOB moves forward with retaliation in the cotton dispute. Representatives of two of Brazil's most influential business associations have approached post in recent days with interest in finding a constructive, trade-enhancing solution to the dispute. Both AmCham and FIESP are in the process of refining concrete ideas to suggest a constructive way forward and perceive a window of opportunity for resolution amid upcoming senior visits between now and mid-March. End Summary.

AmCham Worried

¶2. (SBU) On the eve of Brazil's Carnival holiday week, Sao Paulo American Chamber of Commerce Executive Director Gabriel Rico contacted Sao Paulo Consul General February 12 to share the Chamber's growing concerns regarding potential Brazilian government retaliation in the WTO Cotton. Rico emphasized that AmCham Sao Paulo, the largest bilateral American Chamber of Commerce in the world, was increasingly worried that the GOB would move forward with retaliation against U.S. products under the WTO cotton dispute decision. Rico said that retaliation would not only financially hurt companies providing listed products, but also had the potential to set a more negative tone in the bilateral trade relationship that could affect issues such as the extension of Generalized System of Preferences (GSP) benefits for Brazil. Information technology and pharmaceutical company members of AmCham are particularly concerned by the prospect of cross-retaliation on intellectual property-based products, including impeding/taxing royalties or issuing of compulsory licenses. In recent separate conversations, the Sao Paulo Federation of Industries (FIESP) has emphasized similar concerns.

Finding a Trade Enhancing Solution

13. (SBU) Rico said AmCham would like to assist in finding a constructive resolution to the WTO Cotton dispute between the United States and Brazil. He said that from his conversations with Trade Minister Miguel Jorge and CAMEX Director Lydia Spindola, both want to avoid worsening trade relations if at all possible. Rico suggested that a goodwill gesture by the United States to promote trade would likely give the Brazilian government the political space it needs to avoid retaliation. FIESP International Trade Director Roberto Gianetti Fonseca separately confirmed to us the political importance of any gesture toward resolution that the USG can make. Gianetti also agreed that Brazilian industry and most of the GOB want to find a constructive solution that avoids retaliation.

14. (SBU) In an effort to offer concrete recommendations, Rico told the Consul General that AmCham had commissioned a study from the Brazilian consulting firm Prospectiva to find market access concessions that might provide a basis for proposing a trade-enhancing solution. . This consultant's report suggests increasing market access for Brazilian textile products. [NOTE: Per ref B, Post has emailed copies of the report to EEB and USTR. END NOTE]

15. (SBU) FIESP has told us they are also exploring with Brazilian industry associations (particularly beef, ethanol, and cotton) potential U.S. market access requests that potentially could be proposed as a compensation package. MDIC and CAMEX interlocutors in Brasilia have confirmed they support FIESP working with other industry associations to identify specific ideas that could potentially form a basis for compensation. As with AmCham, FIESP believes the GOB would very likely accept a compromise compensation as a resolution to the cotton case. Rico told the Consul General that AmCham and FIESP are in contact about their respective efforts and that AmCham was pressing to focus market-access proposals on cotton and textile-based sectors.

Window of Opportunity

16. (SBU) AmCham and FIESP both believe with upcoming senior USG visits to Brazil, including the planned March 8-9 U.S.-Brazil CEO Forum, there is an important window for discussion on finding a resolution to the dispute. In the meantime, some AmCham member companies from the IT and pharmaceutical industries are planning to visit Washington February 24-26 to lobby stakeholders for a constructive solution along the lines of the Prospectiva study.

17. (SBU) Over the longer term, FIESP has told us they plan to continue efforts to deepen the bilateral economic relationship. As part of that effort, FIESP President Paulo Skaf plans to lead a senior-level business delegation to Washington before June 30 to encourage a positive economic agenda and hopes to be received at senior levels in the White House and USG agencies including the State Department and USTR.

COMMENT

18. (SBU) Local industry interlocutors have made clear that they want to see the cotton dispute resolved in a way that avoids retaliation. They also want to ensure that the bilateral trade relationship is not defined by this dispute and that both sides continue to pursue deeper positive economic cooperation. In this vein, industry interlocutors, like GOB officials, have separately been extremely supportive of developing a Trade and Investment Framework Agreement between the United States and Brazil as a means

to further deepen and broaden the positive bilateral trade and investment relationship, and welcome upcoming high level visits as a means to ensure continued forward momentum on positive cooperation. END COMMENT.

19. (U) Cable was cleared/coordinated with Embassy Brasilia.
Popp